Stagecoach Group Pension Scheme -Main Section (the "Scheme")
Integrated statement of funding and investment principles

1. The Trustee of the Stagecoach Group Pension Scheme has prepared this, the tenth, **integrated statement of funding and investment principles** in compliance with section 223 of the Pensions Act 2004 and section 35 of the Pensions Act 1995, as amended. It is a written statement which sets out:

   (a) their policy for meeting the "statutory funding objective" (introduced by Part 3 of the 2004 Pensions Act), which requires that a salary-related occupational pension scheme must have sufficient and appropriate assets to cover its "technical provisions" (the amount required, on an actuarial calculation, to make provision for the Scheme's liabilities), and;

   (b) their policy concerning diversification and suitability of Scheme investments and other related matters.

   This statement records the decisions reached by the Trustee Board as to the methods and assumptions to be used in calculating the Scheme's technical provisions, and the period within which, and manner in which, any failure to meet the statutory funding objective is to be remedied.

Scheme background

2. The Stagecoach Group Pension Scheme is a fully sectionalised HMRC Registered Pension Scheme, with each Section established as a multi-employer non-segregated occupational pension scheme for associated employers. The assets and liabilities of the Main Section (the "Scheme") are pooled in a common trust fund.

   If any Employer gives notice of its intention to cease contributions to the Scheme or to cease participation in the Scheme a partial wind-up will occur unless the Trustee determines otherwise. If an Employer becomes insolvent, a partial wind-up of the Scheme will occur. The legal structure of the Scheme is such that the Principal Employer, Stagecoach Group Limited, remains an "Employer" under the Scheme (although it ceased to employ any members of the Scheme in 2002). The Scheme is closed to new entrants, and future service-related accrual of benefits for active members ceased on 30 April 2017, except that a small finite number of new active members, who formally belonged to the Tyne & Wear Local Government Pension Scheme, were admitted to the Scheme for future service accrual in March 2021.

Advice taken

3. This statement has been prepared by the Trustee Board after obtaining the advice of the Scheme Actuary, Jonathan Black FFA of Mercer LLC, and the appointed investment adviser, Hymans Robertson LLP, duly authorised by the Institute & Faculty of Actuaries and the Financial Conduct Authority respectively.

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4. The Trustee Board has agreed the funding principles and methods and assumptions for technical provisions contained in this statement with the Principal Employer, Stagecoach Group Limited, as ultimate parent company representing all Participating Employers.

5. The Trustee Board has also consulted with the Principal Employer in connection with their investment policy and the investment information used to inform the setting of the discount rates used for funding valuation purposes.

Funding Principles

Paragraphs 6 – 30 (Funding Principles) have been removed from this version of the Integrated Statement of Funding & Investment Principles so that investment principles only may be shared with the Scheme's investment managers (and included on public websites for Disclosure purposes).

Investment Principles

Introduction

31. This integrated Statement has been prepared by the Trustee of the Scheme in accordance specifically with the requirements of Section 35 of the Pensions Act 1995 (as amended).

32. This Statement supersedes the previous Integrated Statement of Funding & Investment Principles dated 31 May 2023 and is effective from 5 December 2024.

33. In preparing this Statement, the Trustee has consulted with the employer to the Scheme (Stagecoach Group Limited) and has taken and considered written advice from Hymans Robertson LLP.

34. The Trustee monitors the Scheme's investment arrangements on a regular basis, as set out in this Statement.

35. The Statement itself is reviewed periodically, at least every three years, and will be amended as circumstances change.

36. Copies of this Statement have been (or will be) given to the Scheme's Investment Consultants and Advisers, the Scheme Actuary, the Scheme's Covenant Advisers and the Scheme's Investment Managers. The Scheme will publish this Statement and an Implementation Statement regarding annual engagement and voting reports on a publicly available website, https://www.stagecoachgroup.com/about/managing-the-business/governance/pension-schemes.aspx.

37. Copies of this Statement are also available to members of the Scheme on request, and a summary of key investment information is included in the Trustees' annual report and the annual summary report sent to all defined benefit members.

Scheme Objectives

38. The primary objective of the Scheme is to provide pension and lump sum benefits for

members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

39. The Trustee expects the yield and future realised returns of the overall portfolio to be able to support the assumed discount rates for funding purposes with margins for prudence, and will achieve a rate of return of at least 1% p.a. in excess of the return on a portfolio of gilts. The Trustees do so in the belief that such a structure:

- will generate a satisfactory return over the long-run, sufficient to meet the Scheme's liabilities as they fall due;
- will provide sufficient total income to pay pensions and other benefits and Scheme expenses as these fall due over the short, medium and long-term
- embody a prudent approach through the appointment of particular investment managers, agreed investment mandates and diversification between individual managers and appropriate asset classes.
- recognises the need to manage interest rate and inflation risks as the investment strategy is transitioned towards assets that more closely match the Scheme's liability cashflows

Investment strategy

40. The Trustee has translated its objectives into a suitable target asset allocation, however expects the actual allocation to each asset class may vary from time to time. The Trustee has agreed target asset allocations and permitted ranges as set out below:

Asset Class	Target Allocation	Permitted range
Equities	4%	0%-8%
Multi-Asset	5%	0%-10%
Property	5%	0%-10%
Return Seeking Credit	3%	0%-6%
Investment Grade Credit	31%	26%-36%
Liability Driven Investment (LDI)	51%	46%-56%-
Cash and other	1%	0-5%

41. In addressing the management of interest rate and inflation risks, the strategy targets hedge levels, against liabilities discounted at a rate of gilts+0.5% p.a., as follows:

Interest rates: 98%
Inflation: 98%

The Trustee's intention is to implement hedging at these levels through direct investment in physical assets, rather than through using derivative contracts that create leverage. The Trustee notes that the hedging level may vary due to the approach adopted (within a range of plus or minus 2%) and has agreed appropriate monitoring arrangements with the manager to identify and, if necessary, instruct remedial action should any material deviation from the target hedge level arise.

Kinds of investment to be held

42. The Scheme may invest in quoted and unquoted securities of UK and overseas markets,

including equities and fixed interest and index-linked bonds, cash, property, infrastructure, and commodities either directly or through pooled funds.

43. Subject to discussion with and agreement by the Trustee, the Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

44. The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets, maintaining the broad principle of diversification within the implementation of their mandate.

Implementation of investment strategy

45. Responsibility for the management of the Scheme's assets is vested in the Trustee, who have delegated the day-to-day management of the Scheme's assets to a number of Investment Managers. Each of these Investment Managers is regulated by the UK's Financial Conduct Authority (or equivalent overseas) in the conduct of their investment business. A list of the Investment Managers is available on request from the Trustee.

46. The majority of the Scheme's investments are held within a Delegated Portfolio managed by SEI Investments Ltd ("the Discretionary Manager"). The Discretionary Manager is appointed through a Fiduciary Management Agreement which sets out the scope of the manager's duties, fees, and investment restrictions, together with any other relevant matters in relation to the Scheme. The Discretionary Manager may implement strategies through the direct management of assets, the appointment of third-party managers or through the use of in-house funds.

47. The Discretionary Manager has responsibility for the management of two portfolios:

- The Growth portfolio which comprises the allocation to Equities and Global Credit and
- The Matching portfolio which comprises the allocations to UK Investment Grade Credit and Liability Driven Investment Portfolio

48. Appropriate target returns, income yield and interest rate and inflation hedging levels have been agreed with the Discretionary Manager for these two portfolios. These will be reviewed from time to time, but no less frequently than annually.

49. The Discretionary Manager has discretion regarding the appointment and monitoring of appropriate specialist managers in the case of segregated accounts or the selection and overseeing of suitable pooled investments to implement the asset allocation within the Delegated Portfolio. The Discretionary Manager will consult with the Trustees prior to implementing material changes to the portfolio. The balance of assets within the Matching portfolio may vary at the discretion of the Discretionary Manager in order to achieve the overall hedging targets.

50. The Scheme holds a portfolio of assets outwith the Delegated Portfolio, consisting of Multi-Asset and Property mandates. The Trustee also retains legacy investments in

Hedge Funds, Private Equity and Venture Capital, and expect all of the existing investments, including outstanding commitments still to be drawn down, to be realised by around 2027.

51. The Trustee in deciding to invest with these Investment Managers, including the Discretionary Manager, have sought advice from their investment consultants and advisers on the suitability of these appointments. The Trustee also review the ongoing appointments from time to time with their advisers and with the Investment Managers concerned.

52. Where appropriate, and where commercial considerations permit, the terms of each mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. This includes assets held within the Delegated Portfolio. Where such tailoring is not directly achievable, or expediency of implementation is of particular importance, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.

53. The terms of each Investment Manager's appointment, including investment discretions, have then been agreed with the Trustee.

54. As long-term investors, the Trustee generally engages Investment Managers with no pre-determined term of appointment. The Trustee expects the minimum duration of each appointment will be three to five years, this being the period over which performance of each mandate can be appropriately evaluated; although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to considering their continued appropriateness within the overall investment arrangements.

55. The Trustee recognises that managers should be fairly paid for the management of assets and remuneration for each Investment Manager is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. The Discretionary Manager is responsible for agreeing the remuneration of managers within the Delegated Portfolio. The Trustee periodically review the fees paid to all Investment Managers against industry benchmarks.

56. In reviewing their Investment Managers, the Trustee considers a series of metrics, including financial performance against expectations for each mandate, the exercise of stewardship responsibilities as set out in greater detail below, and the management of risks. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the managers as part of their engagement process and request that the managers take appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustee will require the managers to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandates being terminated.

57. The Trustee receives quarterly updates on the performance of the Scheme's assets relative to agreed targets and performance of the overall strategy against the Scheme's liabilities. The Scheme's Funding and Investment Sub Committee also meets at least four times a year to review performance against objectives.

58. The Trustee considers all of these arrangements to be appropriate for the Scheme, providing a reasonable and prudent approach to risk and return.

Consideration of financially material factors in investment arrangements

59. The Trustee has adopted a policy of delegating responsibility for the consideration of environmental, social and governance (ESG) issues at a security level to their individual Investment Managers. The stance of each Investment Manager is reviewed at regular intervals with the support of the Trustee's advisers. The Trustee has discussed attitudes to ESG issues and the extent to which such issues are integrated into the investment processes of their Investment Managers. They are satisfied that the Investment Managers are taking an approach to their selection of investments which take account of all financially material factors, including climate change and other ESG.

60. In framing their funding and investment strategy, the Trustee requests each of their Investment Managers to provide pre-appointment and annually thereafter an indication of the expected income yield and total return for their underlying portfolio. The Investment Managers are expected to take account of all financially material factors in determining their yield/return expectations and are required to comment on how they believe their long-term yield and return expectations may be impacted by climate change and any impacts that may arise in the short-term.

61. The Trustee emphasises the importance of long-term returns in their investment mandates and believe this naturally encourages their appointed Investment Managers to both take a correspondingly long-term view in their security selection and to regard themselves not merely as the owners of negotiable securities but also as the part-owners of the underlying investee companies and preferred creditors of government issuers. In these ways, the Investment Managers, acting on behalf of the Trustee, are expected to have a natural interest in ensuring that corporate management and governments act in the long-term interests of, and, where appropriate, engage with shareholders or bondholders.

62. The Trustee has not made any additional allowance for the long-term risks of climate change in their high-level investment strategy, believing that this is better managed through the design and implementation of investment mandates.

63. As part of triennial reviews the Trustee undertakes scenario analysis to explore the potential sensitivity of their funding and investment strategy to adverse changes in economic outcomes, including as a consequence of climate change. The Trustee reviews the range of scenarios considered in this exercise to ensure they remain appropriate to prevailing economic conditions, regulatory requirements and best practices.

Consideration of non-financially material factors in investment arrangements

64. The Trustee has not imposed any restrictions relating to ESG (including climate change) issues on their Investment Managers and there are no exclusions applied to investment arrangements based on non-financially material factors. The Investment Managers have made it clear that their prime concerns continue to be the long-term financial interests of the Scheme and the Trustee. Nonetheless, when selecting investments, the

Investment Managers have assured the Trustee that they will take into account relationships with employees, suppliers and customers and pay due regard to general environmental and other stakeholder interests.

Stewardship & Engagement

65. The Trustee aims to meet with all their Investment Managers on at least an annual basis. The Trustee provides their managers with a detailed agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues as standing agenda items.

66. Performance of the Investment Managers is measured against the stated growth and yield expectations and, in the case of the Discretionary Manager, the hedging target. Investment Managers are regularly challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues (including climate change) that affect the prospects for individual holdings within their portfolios.

67. Where necessary, the Trustee will engage with and may seek further information from their Investment Managers on how portfolios may be affected by a particular issue.

68. The Trustee does not engage directly with issuers but actively encourages their Investment Managers to do so. The Trustee expects their Investment Managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate or government behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by their Investment Managers as part of their broader monitoring activity.

69. The Trustee has adopted a policy of delegating voting decisions on securities to their Investment Managers, who will exercise the voting rights attached to individual investments on their behalf in accordance with their own house policies. The Trustee notes that the Discretionary Manager has employed Sustainalytics for the provision of responsible engagement overlay and voting services. In addition, the Discretionary Manager has also added a second engagement specialist, BMO Reo, to focus on climate change engagement.

70. Where appropriate, the Trustee has reviewed the voting policies of their Investment Managers and the approach adopted by the Discretionary Manager and determined that these policies are appropriate. On an annual basis, the Trustee will request their Investment Managers to provide details of any change in their house policies.

71. Investment Managers report on voting activity to the Trustee on a periodic basis. The Trustee will monitor Investment Managers' voting activity, including making use of modified PLSA and other voting templates, and may periodically review voting patterns. The Trustee may also monitor Investment Managers' voting on particular companies or issues affecting more than one company.

72. The Trustee separately consider any conflicts of interest arising in the management of the Scheme and its investments and have ensured that each Investment Manager has an appropriate conflicts of interest policy in place.

Attitudes to Risk

73. The Trustee has good reason to believe that each of their Investment Managers is prudent and professional in their approach to investment. The Investment Managers hold diversified portfolios of assets to reduce any single security specific or country specific risks faced by the Scheme.

74. The Trustee has exercised due diligence in the selection of the Investment Managers, including the Discretionary Manager. The use of a variety of managers provides diversity in terms of investment styles and investment market coverage. This multi-manager strategy limits the impact on the Scheme of possible under-performance by an individual Investment Manager and is expected to enhance long-term Scheme returns whilst reducing overall risks.

75. The Trustee considers that they have an investment strategy appropriate for an ongoing pension scheme with a focus on investment and appropriate measures to deal with uncertainty through the investment mandates they agree with each of their appointed managers and the regular detailed monitoring of those managers against their mandates, return expectations, and trading disciplines. The relationship between the assets and liabilities is monitored by the Trustee, the Scheme Actuary and the Principal Employer through regular actuarial valuations and updates.

76. To ensure that short term liquidity requirements can be met, the Trustee will maintain a minimum cash buffer which is managed in accordance with a separate cash management policy.

77. The Trustee regularly monitors payments into and out of Trustee Bank Accounts, primarily to anticipate short cash requirements, partly to ensure Participating Employers comply with the agreed Schedule of Contributions (if and when appropriate), and also to act as an early warning of any material changes in the liability profile or cash demands of the Scheme. The Trustee also monitors their long-term cash flow projections for the Scheme.

Credit risk

78. The Scheme is mainly subject to credit risk in respect of the employer covenant of the Scheme's Principal Employer and Participating Employers. The Scheme invests in index-linked and other government securities, corporate credit instruments and has cash balances. The Scheme invests in pooled investment vehicles and is therefore exposed to so-called credit risk in relation to instruments held in pooled investment vehicles or indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

79. Credit risk arising on nominal and index-linked securities is mitigated by investing in government securities where the risk of default is expected to be minimal. In the case of corporate debt, credit risk is managed through the skills of the Investment Managers in assessing and selecting appropriate assets.

80. Cash is held within financial institutions which are not just investment grade credit rated (BBB) but typically high quality investment grade (AA).

Currency risk

81. The Scheme is subject to currency risk because some of the Scheme's investments are listed on overseas markets or otherwise denominated in currencies other than sterling. Even investments listed in the UK may also be subject to currency risks affecting revenues, costs and profits from overseas subsidiary and associate businesses. The Trustee's Investment Managers take into account the hedging policies of the underlying businesses as part of their investment processes.

82. The Scheme's overall exposure to overseas investments held in mandates who do not already employ their own hedging strategy is relatively limited in the context of the portfolio as a whole and therefore the Trustee has chosen not to employ any further currency hedging.

Interest rate risk

83. The Trustee recognises that changes to long-term interest rates create a risk between how assets and liabilities are valued. The LDI portfolio and in conjunction with an allocation to Credit assets seek to provide a match to the profile and interest rate sensitivity of the Scheme's longer-term cashflows.

The Trustee notes that the approach taken to the management of interest rate and inflation risk creates a potential mismatch risk, in that the instruments held are exposed to slightly different terms. This may mean that the value of the assets moves slightly differently from the value of the liabilities if the shape of the interest rate and inflation curve changes. This risk is accepted as a means of achieving the overall hedging target and is managed by minimising the mismatch through the design of the LDI portfolio.

Inflation risks

84. The Trustee recognises that inflation presents a real risk through its impact on future liability payments from the Scheme, where this is provided for by the Rules of the Scheme. The Trustee manages exposure to inflation risk directly through the Liability Driven Investment portfolio which provides an explicit match to future price inflation.

85. The Trustee also recognises the indirect link to inflation, which is provided through the Equity, Multi Asset and Property portfolios, their expectation being that these mandates will deliver returns in excess of future price inflation over the long-term.

Climate risk

86. The Scheme may be exposed to the physical and transition risks arising from climate change. Such risks are likely to manifest initially as impacts on the value of and returns derived from the Scheme's invested assets. In extremis, climate risks could give rise to an asset, or a proportion of an asset being stranded and having nil value.

87. The Trustee manages exposure to climate related risks primarily through the selection and monitoring of the appointed Investment Managers. The Trustee regularly reviews

the processes employed by their Investment Managers and their approach to assessing climate related risks both within the portfolios managed on behalf of the Scheme, and at a broader firm level. The Trustee reviews this assessment on an annual basis and report the outcome of their assessment through their regulatory disclosures.

Other risks

88. The Trustee recognises that investment risk arises in the operational management of the Plan and has identified the following major risks:

- **Transition risk**: The risk of incurring unexpected costs in relation to the transition of assets between managers.
- **Custody risk**: The risk of losing economic rights to Scheme assets, when held in custody or when being traded.

Realisation of Investments

89. Given the strategy is implemented primarily via the Discretionary Manager, the Trustee delegates the monitoring and management of operational risks to the appointed Discretionary Manager. Across all assets the Trustee monitors and manages risks in these areas through a process of regular scrutiny of the managers and audit of the operations it conducts for the Scheme. When carrying out significant transitions, the Trustee seeks professional advice.

90. The Trustee's policy is to ensure that the assets invested are sufficiently realisable, when necessary, to enable the Trustee to meet its obligation to provide benefits as they fall due. This is monitored regularly on a short term basis to ensure the Scheme has sufficient cash at all times to pay benefits as they fall due and, on a long term basis, to identify projected peak demands for cash to pay benefits, so that appropriate disinvestment policies can be agreed in advance to minimise impact on the Scheme's retained investments. The Trustee is satisfied that the arrangements in place conform to this policy.

Portfolio turnover

91. The Trustee has expectations of the level of turnover within each mandate which are determined at the inception of any mandate, based on the Trustee's knowledge of the Investment Managers, investment process and the nature of their portfolios. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects Investment Managers, including the manager of the Delegated Portfolio, to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustee will challenge their Investment Managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive or much lower than expected. The Trustee will request and review turnover costs incurred by the Investment Managers over the Scheme reporting year.

Additional Voluntary Contributions

92. The Scheme retains legacy Unit Linked AVC arrangements with Standard Life (which

includes UK Equity, International Equity, Ethical, Long Term Gilt, With Profits and Cash options) and Prudential (a pure Deposit arrangement) for certain former active members.

Compliance

This integrated Statement (including the Appendices) has been agreed by the Trustee.

Signed on behalf of the Trustee by:

Signed:	*John Hamilton*
Name:	John Hamilton (Chair of Trustee)
Date:	5 December 2024

This Statement of Funding Principles (paragraphs 6 – 30) has been agreed by Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme).

Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme) acknowledge that the Trustee has consulted with them in relation to this entire document and in particular in relation to this Statement of Investment Principles (paragraphs 31 – 92).

Signed on behalf of Stagecoach Group Limited (as Principal Employer and on behalf of all Employers under the Scheme) by:

Signed:	*Bruce Dingwall*
Name:	Bruce Dingwall (Director)
Date:	5 December 2024